

PAGE

AR31

PAGE PETROLEUM LTD.

Incorporated in Alberta, Canada

OFFICERS

LAWTON L. CLARK, President
C. DEREK GOULD, Vice President
THOMAS J. JACOBSEN, Vice President
BRIAN G. McCOMBE, Secretary

DIRECTORS

LAWTON L. CLARK
President, Page Petroleum Ltd.
Amarillo, Texas
C. DEREK GOULD
Vice President, Page Petroleum Ltd.
Calgary, Alberta
HARRY A. IRVING
President, Irving Industries
(Irving Wire Products Division) Ltd.
Calgary, Alberta
THOMAS J. JACOBSEN
Vice President, Page Petroleum Ltd.
Calgary, Alberta
BRIAN G. McCOMBE
Barrister and Solicitor,
McCombe, Cameron & Cormie
Calgary, Alberta

CAPITALIZATION

Authorized 5,000,000 common shares,
No Par Value
Issued Capital — 2,004,585 shares

HEAD OFFICE

900 Bradie Building
630 - 6th Avenue South West
Calgary, Alberta
T2P 0S8

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company
Calgary and Toronto

AUDITORS

Collins Barrow
Calgary, Alberta

LEGAL COUNSEL

McCombe, Cameron & Cormie
Calgary, Alberta
Stubbeman, McRae, Sealy, Laughlin & Browder
Midland, Texas

CORPORATE PROFILE

Page Petroleum Ltd. was formed by amalgamation in Alberta on August 13, 1971. The Company has continued and expanded the operations of its predecessor companies, acquiring oil and gas reserves through exploration, development and purchase. Page has traditionally operated in Western Canada, although in 1973 the Company expanded its operations into the United States. Page is primarily a crude oil producer with interests in several light gravity Alberta and Saskatchewan oilfields.

As of March 20, 1978, Page's 2,004,585 outstanding shares were held by 1,500 registered shareholders. A total of 1,300 Canadian individuals and corporations held 80% of the shares.

BANKING

The Canadian Imperial Bank of Commerce
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol "PGE"

SUBSIDIARIES

Page Petroleum Inc.
Page Petroleum (U.K.) Limited
Cowzanoil Ltd.
Magnolia Petroleum Ltd.
Northline Well Servicing Ltd.
Leaf Petroleums Ltd.

FORM 10-K

Copies of this report and the Annual Report on Form 10-K filed with Securities and Exchange Commission of the United States are available free of charge by writing to the Company at 900, 630 - 6th Avenue South West, Calgary, Alberta, Canada T2P 0S8.

FINANCIAL AND OPERATING HIGHLIGHTS

	1977	1976	Increase (Decrease) Per Cent
FINANCIAL			
Gross income	\$2,017,000	\$ 720,000	180.1
Sales of oil and gas	\$1,918,000	\$ 709,000	170.5
Investment and other income	\$ 99,000	\$ 11,000	800.0
Total expenses	\$1,577,000	\$ 768,000	105.3
Net Income	\$ 318,000	\$ 7,000	4,442.9
Per Common Share	\$.175	\$.005	3,400.0
Funds Generated from Operations	\$1,049,000	\$ 278,000	277.4
Per Common Share	\$.58	\$.20	190.0
Additions to Property and Equipment	\$2,929,000	\$ 944,000	210.3
Working Capital	\$ 668,000	\$ 91,000	634.1
Long Term Debt	\$5,547,000	\$2,408,000	130.4
Shareholders' Equity	\$3,564,000	\$1,831,000	94.6
Common shares outstanding	1,999,252	1,410,086	41.8
Number of shareholders	1,500	1,540	(2.6)
OPERATIONS			
LAND HOLDINGS			
Gross Acres	2,580,075	2,605,262	(1.2)
Net Acres	157,270	143,020	15.3
DRILLING ACTIVITY			
Gross Wells Drilled	53.0	11.0	373
Net Wells Drilled	42.6	2.4	1,675
Net Wells Productive	42.3	1.5	2,720
Net Wells Dry	0.3	0.9	(67)
PRODUCTION — gross (before royalties)			
Crude Oil — barrels	266,352	124,720	144
Per day	730	341	114
Natural Gas — mcf	194,938	164,121	19
Per day	534	448	19
RESERVES — gross proven and probable			
Crude oil — barrels	7,235,000	4,527,000	60
Natural Gas — mcf	9,589,000	5,767,000	66

RANGE OF MARKET PRICES ON COMMON SHARES:

	Year	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Annual Share Volume
		High	Low	High	Low	High	Low	High	Low	
Toronto	1974	3.90	3.40	3.45	1.60	1.98	0.95	1.60	0.90	296,809
Stock	1975	2.05	1.00	2.00	1.50	1.80	1.55	1.65	1.26	218,167
Exchange	1976	2.10	1.35	2.35	1.60	2.24	1.88	2.85	1.90	377,109
	1977	2.95	2.30	3.05	2.50	3.50	2.70	7.25	4.45	1,270,969

TO THE SHAREHOLDERS:

It is gratifying to report a year of exceptional growth, as evidenced by record operating and financial results. Gross income was \$2,017,000, a gain of 180% from \$720,000 in 1976. Oil and gas sales, after royalties, increased 170% from \$709,000 to \$1,918,000. Funds generated from operations totalled \$1,049,000, an increase of 288% over \$278,000 the previous year. Net earnings were \$318,000, or 17.5¢ per share, compared to \$7,000, or 0.5¢ per share. At year end, Page's proven net oil reserves totalled 4,388,000 barrels, up 2,763,000 barrels from December 31, 1976. Proven net gas reserves increased fractionally to 4.4 billion cubic feet.

A significant development during the past year was the acquisition, effective April 1, 1977, of all the shares of Cowzanoil Ltd., all the shares of Magnolia Petroleum Ltd. and certain related properties, for 392,776 shares of Page stock. At the time of purchase, the two companies were producing approximately 280 net barrels of oil per day in southwest and west central Saskatchewan and owned 7,000 acres of undrilled proven and semi-proven leases in the Dodsland area.

During the summer and early fall Page drilled 38 oil producers in the Dodsland field. In December, Page's production from Dodsland averaged 612 barrels per day. The 2,300-foot Viking Sand wells produce high gravity oil, presently selling for \$11.76 per barrel. The price is scheduled to increase \$1 per barrel on July 1, 1978, and January 1, 1979. The field has produced continuously since 1957 with older portions now under waterflood. It is probable that portions of the newly drilled area will be waterflooded which should significantly increase the company's daily production and recoverable oil reserves. Page now holds 15,360 acres of leases and freehold mineral rights at Dodsland and plans to drill an additional 35 to 45 wells there in each of the next two years.

In the Boundary Lake area of northwestern Alberta, studies are continuing on the planned waterflood of the Triassic "H" Pool. Page's present share of income from the field is approximately \$18,000 per month.

Current allowables of approximately 170 barrels per day are projected to increase four-fold after the water flood commences, probably in late 1978. Elsewhere in the Boundary Lake area, Page will participate in the drilling of two development wells near Dome Page Boundary 10-28-85-13 W6M, an oil discovery completed in the second quarter of 1977. Page has a one-third interest in the discovery well and approximately 1,700 acres on the prospect. The discovery well is capable of producing in excess of 100 barrels of oil per day.

In Hemphill County, Texas, the Company participated in an apparently significant Upper Morrow gas discovery. The well has an indicated 36 feet of net pay from the interval 13,823 - 13,864 feet. During testing, the well flowed at rates up to 2.6 million cubic feet per day. The required official open flow potential test will not be run until the well is connected to a pipeline, probably in April. Page has a 20% working interest in the well and in 2,880 acres on the prospect. If Phillips Petroleum Co. exercises all of its options, Page's working interest will be reduced to 15% in the discovery well after payout, and to a 10% working interest in subsequent wells. The first offset will commence drilling in March. Another operator is now drilling a 20,500-foot Hunton test 660 feet east of the section in which the discovery is located.

Three additional prospects located in the Glazier area of Hemphill County will be drilled during the first few months of 1978. The first well, Page Petroleum Inc. #1-20 Jones Estate, is now drilling and is projected to test the Lower Morrow sand at approximately 13,000 feet. The second is a 12,000-foot Upper Morrow test while the third will be drilled as an 8,200-foot Tonkawa sand test. All three are primarily gas prospects with several potential productive zones. Page will have a 25% working interest in the wells and in approximately 7,200 lease acres.

Also in Hemphill County, Page is participating in a well being drilled to test the Hunton at 20,500 feet. The well is projected as an extension to Buffalo Wallow, a prolific high-pressure gas field which produces from five separate zones. Page has a 6.25% working interest in the well and owns a 130-acre lease diagonally offsetting the drillsite section.

Due to the lack of suitable work-over equipment to service our Dodsland wells, Page ordered a service rig built to its specifications for delivery in April of 1978. The Company has purchased four additional service rigs, already in operation at Wainwright, Alberta. Total purchase price of the five rigs, together with the cost of upgrading and modifying the four used units, is expected to total approximately \$565,000. Three rigs will remain in Wainwright under contract to others and two will be based in Kindersley, Saskatchewan. The equipment will be operated under a new and wholly owned subsidiary, Northline Well Servicing Ltd.

Company forecasts indicate that record financial and operating results will again be achieved in the coming year. Page's net oil and gas sales should exceed \$4 million in 1978, or more than double the previous year's figure. The expanded cash flow, together with additional bank borrowing should be sufficient for our planned 1978 development program. We are considering alternate ways of funding our land acquisition and exploration program for this and future years. In view of the foregoing, your directors have proposed the recapitalization of the Company by the creation of 1,000,000 Preferred Shares with a par value of \$10.00 each. The Company has entered into negotiations with an underwriter to sell up to 500,000 of the Preferred Shares, however reference should be made to the enclosed Proxy Statement and Information Circular for further details.

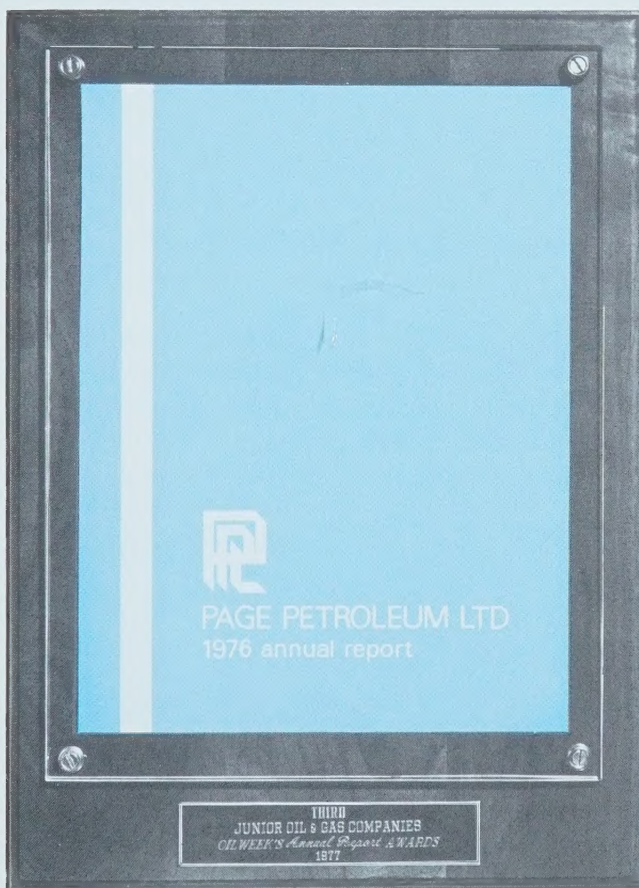
Management is grateful to the company's shareholders and employees for their support and encouragement. We believe that the company's performance in 1978 will warrant your continued confidence.

Submitted on behalf of the Board of Directors

Lawton L. Clark

March 15, 1978

President



EXPLORATION, DEVELOPMENT AND PRODUCTION

During 1977 Page participated in the drilling of 53 wells, 47 of which were development and 6 exploratory. This program resulted in 46 development oil wells, one gas and two oil discoveries and four dry holes.

The Company's daily oil production increased from an average of 341 barrels per day in 1976 to 730 in 1977, with production in December averaging 1260 barrels per day. Most of this increase is attributable to new wells at Dodsland, Saskatchewan. Gas production increased marginally from 448 to 534 thousand cubic feet per day. Gas sales are expected to increase substantially in April, 1978, when a gas discovery in Texas is scheduled to commence production.

The Company's Canadian properties were recently evaluated by D & S Petroleum Consultants of Calgary, and its U.S. holdings by R. F. Bailey of Midland, Texas. Proven Company reserves as of January 1, 1978, were calculated to be 4,388,000 barrels of oil and 4,366 million cubic feet of gas. The future undiscounted cash flow was calculated to be

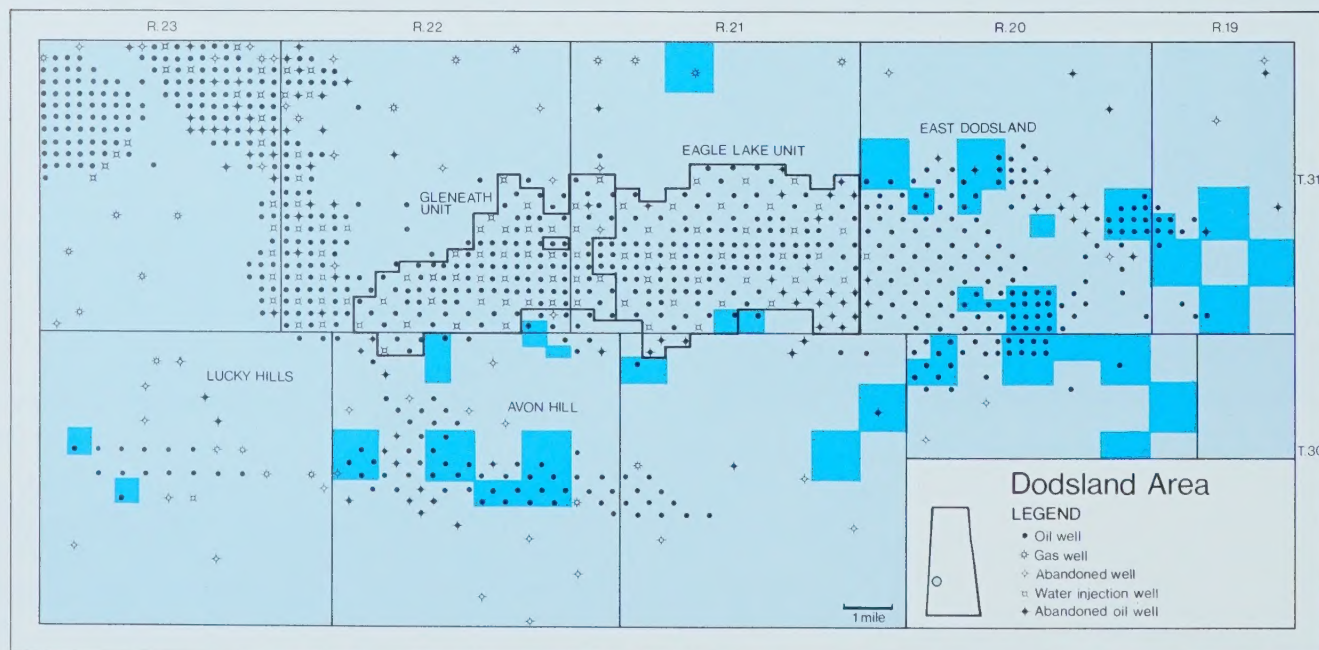
\$72,440,000. Using a 10% discount factor this cash flow was determined to have a present worth of \$28,837,000. All figures are net after royalties and operating costs. Proven reserves are defined by the consultants as those reserves which are considered to be recoverable to a high degree of certainty at commercial rates, assuming present depletion methods and recoveries, operating conditions, price forecasts and costs.

WESTERN CANADA

Saskatchewan drilling highlighted the year with the completion of thirty-seven wholly owned development oilwells and one successful exploratory oilwell at Dodsland. Two development oilwells were drilled at Buffalo Coulee. In northern Alberta, seven development oil wells were drilled, six at Boundary Lake and one at Worsley. These were drilled in partnership with other companies. Two exploratory dry holes were drilled in Alberta at Nipisi and Michel, on lands farmed out by Page to other companies.

Dodsland

Page acquired over 7,000 acres of leases at Dodsland early in 1977 with the acquisition of Cowzanoil Ltd. A further 7,900 acres of mineral titles



and 320 acres of leases were purchased during the year, bringing the company's total holdings to 15,360 acres. All are wholly owned. During the year, Page drilled 37 development oilwells and one successful oil discovery in East Dodsland. To evaluate the approximate 10,000 acres of undrilled lands the company has scheduled similar drilling programs in 1978 and 1979.

In the past year, Page consolidated its 82 Dodsland oilwells into an efficient producing facility which will eliminate many of the production problems caused by weather.

The Dodsland field produces 34° gravity oil from the Viking sand at 2,200 feet. The production rates of the wells average less than 10 barrels per day but the resulting low royalty rates, the low production decline rate and the oil price of \$11.75 per barrel assure that this will be an area of major importance to the company for several years. Studies are under way to determine if secondary recovery would be feasible for Page's Dodsland producing properties.

Southwestern Saskatchewan

The Company produces from 12 wells in several small Jurassic oil pools. These wells, acquired from Magnolia Petroleum Ltd. on April 1, 1977, produced 40,474 barrels of oil yielding the Company \$208,600. Further development drilling is planned on several of the properties.

Mitsue

The Company has various interests in 4,160 acres of land in the Mitsue area as well as an interest in 5,280 acres in the Mitsue Gilwood Sand "A" Unit. Its Unit Participation netted the Company \$541,500 in 1977. The Mitsue Unit produces oil from the Devonian Gilwood Sand. Pressure maintenance by water and gas injection keeps potential producing rates high, but the field production is currently restricted by market allowables. Only minor capital expenditures are projected over the remaining 30-to-40 year life of the field.

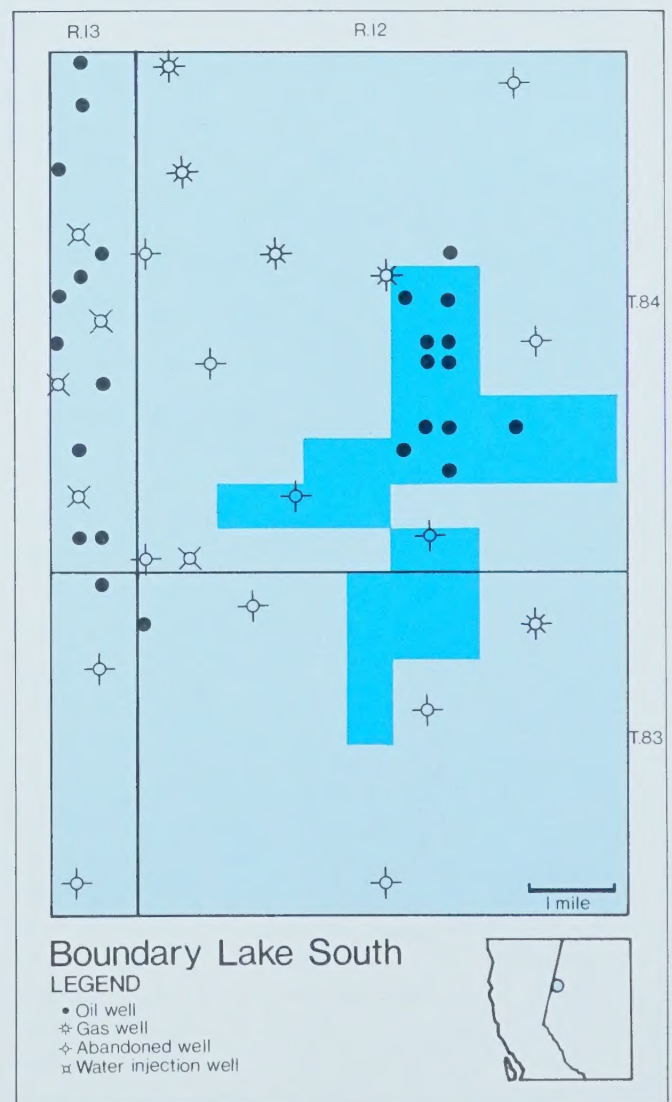
Buffalo Coulee

The Company has 1,600 acres of leases at Buffalo Coulee, just to the west of Dodsland. Page has 5 wells in the field, two drilled during the year. The wells produce heavy gravity oil from the Mississippian Bakken Sand at 2,700 feet. Further drilling will

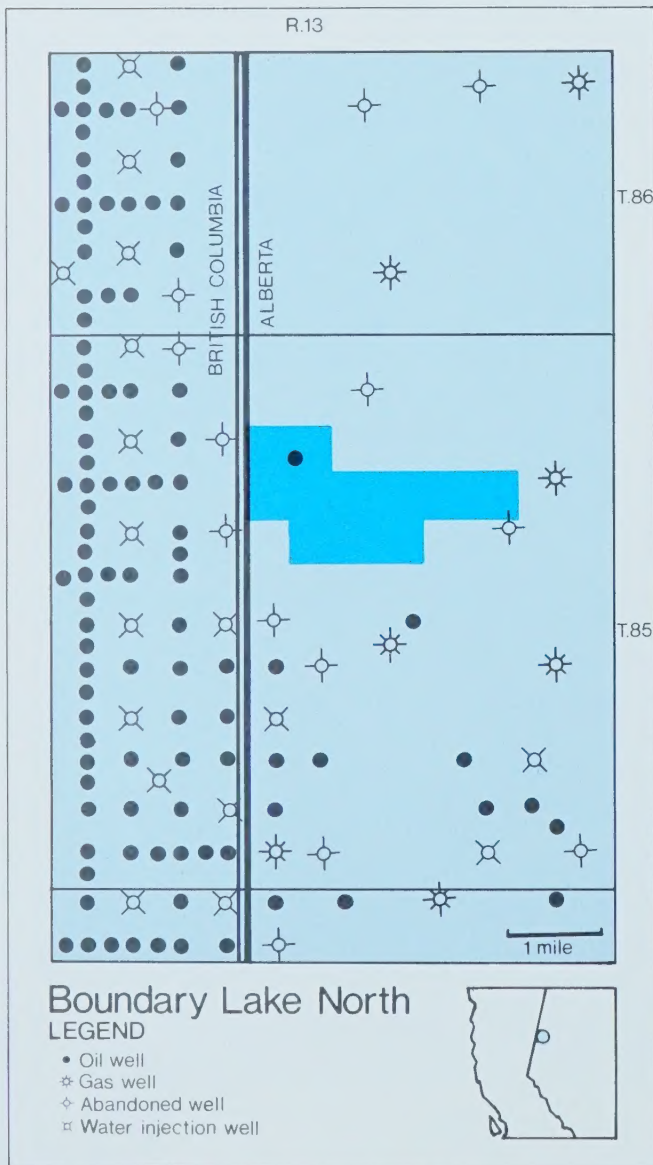
depend on the results of an engineering study now under way.

Boundary Lake

At Boundary Lake South, Page has an average working interest of 24% in 4,960 lease acres. The Company now has interest in eleven oilwells, six drilled during the year. Page's net proven reserves are calculated to be 248,000 barrels. A waterflood now scheduled to commence in late 1978 is expected to increase net reserves and producing rates almost four-fold. This oilfield, designated the Boundary Lake Triassic "H" Pool, produces 36° oil from 4,200 feet.



On the Boundary Lake North prospect, Page will participate in the drilling of two 4,300-foot development wells near Dome Page Boundary 10-28-85-13 W6M. This well, drilled on Page leases in the second quarter of 1977, resulted in a Boundary Lake zone oil discovery. Page owns a one-third interest in the discovery well and approximately 1,700 acres on the prospect. It is expected that this new field will have waterflood possibilities similar to the Triassic "H" Pool.

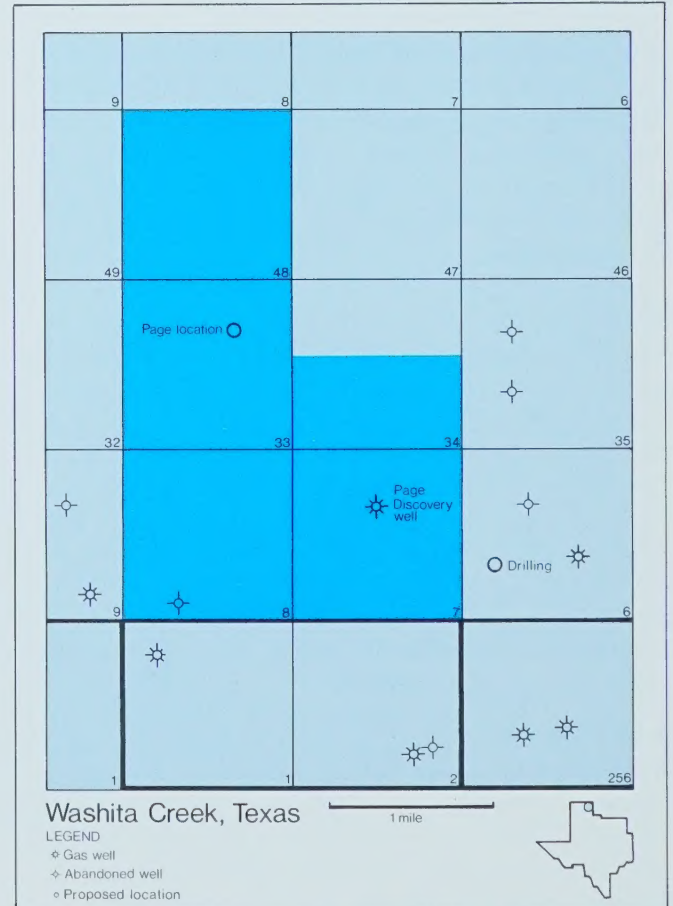


UNITED STATES

Page operates in the U.S. through Page Petroleum Inc., — a wholly owned subsidiary with headquarters in Amarillo, Texas. Although the Company participated in only 3 wells during the year, the groundwork was laid for an ongoing exploration program in a limited, high reserve area of the Texas Panhandle. The Company has been especially active in acquiring leases and farmouts in Hemphill County. This area offers multiple pay possibilities with prospective gas zones ranging in depths from 7,000 to 21,000 feet. Ultimate recoverable reserves can exceed 40 billion cubic feet of gas per section from Morrow and Hunton wells.

Washita Creek, Texas

Page's first well in Hemphill County, Texas, resulted in an apparently significant Upper Morrow Sand gas discovery on the Company's Washita Creek prospect. Well logs indicated 36 feet of net pay between the depths of 13,823 and 13,864 feet. During testing, the





well flowed at rates up to 2.6 million cubic feet per day on a 17/64-inch choke with flowing tubing pressure of 2,000 pounds per square inch. An official open-flow-potential test will be taken when the well is connected to a pipeline in March or April. The initial gas price is expected to be approximately \$1.53 per thousand cubic feet.

An offset well in Section 33 will be commenced in late March. This well is expected to cost \$950,000 to drill and a further \$250,000 to complete, ready for production. Page has a 20% interest in the discovery well and in 2,880 acres on the prospect. The Company's interest could be reduced to 15% in section 8, the drillsite section, and to 10% in the other lands, if all options are exercised by the farmor. Another very significant well was spudded in February by a neighboring operator in section 6, at a location just 660 feet to the east of Page lands. The well will be drilled to 20,500 feet to test the Hunton

dolomite, a formation noted for its large, high-pressure gas reserves.

Glazier South-East and Jones Ranch, Texas

Page has acquired 7,200 acres in the Glazier area of northeastern Hemphill County through farmout and lease purchase. Test wells will be drilled, at no cost to Page, on three separate prospects. The Company has retained a 25% interest in the wells and the leases. The first well, Page Petroleum Inc., #1-20 Jones, is now drilling and is projected to test the lower Morrow at approximately 13,000 feet. The second will be drilled to the Upper Morrow at an expected depth of 12,000 feet. The third well will be located three miles to the east on the Jones Ranch prospect. It will evaluate the Tonkawa sand at 8,200 feet. All of these wells can be connected to a pipeline almost immediately at a gas price in excess of \$1.50 per thousand cubic feet.

LAND	Working Interest		Royalty Interest	
	Gross Acres	Net Acres	Gross Acres	Net Acres
CANADA				
Alberta	63,158	20,212	32,774	665
Saskatchewan	28,080	23,725	—	—
Arctic Islands	603,779	32,634	903,517	2,711
	<u>695,017</u>	<u>76,571</u>	<u>936,291</u>	<u>3,376</u>
UNITED STATES				
Kansas	2,640	1,008	2,560	22
Texas	24,512	3,602	—	—
Alaska	236,194	29,524	—	—
	<u>263,346</u>	<u>34,134</u>	<u>2,560</u>	<u>22</u>
UNITED KINGDOM				
Onshore	102,660	23,612	—	—
Offshore	565,686	19,455	—	—
	<u>668,346</u>	<u>43,067</u>	<u>—</u>	<u>—</u>
ITALY				
Adriatic Sea	—	—	14,715	110
	<u>1,626,709</u>	<u>153,772</u>	<u>953,566</u>	<u>3,508</u>

PRODUCTION	1977		1976	
	Gross	Net	Gross	Net
CRUDE OIL AND LIQUIDS (<i>barrels</i>)				
Alberta	129,647	70,421	113,598	60,710
Saskatchewan	130,809	97,870	—	—
Texas	5,896	4,161	11,122	7,841
	<u>266,352</u>	<u>172,452</u>	<u>124,720</u>	<u>68,551</u>
Average daily production	<u>730</u>	<u>472</u>	<u>341</u>	<u>187</u>
Average price per barrel — Canada		\$ 9.76		\$ 8.37
— U.S.A.		\$ 13.74		\$ 12.63
NATURAL GAS (<i>mcf</i>)				
Alberta	102,327	66,514	46,929	35,599
Texas	92,611	68,985	117,192	83,749
	<u>194,938</u>	<u>135,499</u>	<u>164,121</u>	<u>119,348</u>
Average daily production	<u>534</u>	<u>371</u>	<u>448</u>	<u>326</u>
Average price per mcf — Canada		\$ 1.30		\$ 1.08
— U.S.A.		\$ 1.04		\$.72

RESERVES	Jan. 1, 1978		Jan. 1, 1977	
	Gross	Net	Gross	Net
Oil — (<i>thousands of barrels</i>)				
proven — Alberta	1,801	1,095	2,471	1,481
Saskatchewan	3,892	3,274	—	—
Texas	27	19	204	144
probable — Alberta	1,379	1,158	1,852	1,384
Saskatchewan	136	82	—	—
Total Oil	<u>7,235(1)</u>	<u>5,628</u>	<u>4,527</u>	<u>3,009</u>
Gas — (<i>mmcf</i>)				
proven — Alberta	2,880	1,890	3,747	2,638
Texas	3,896	2,476	2,016	1,467
probable — Alberta	13	12	4	4
Texas	2,800	2,072	—	—
Total Gas	<u>9,589(2)</u>	<u>6,450</u>	<u>5,767</u>	<u>4,109</u>

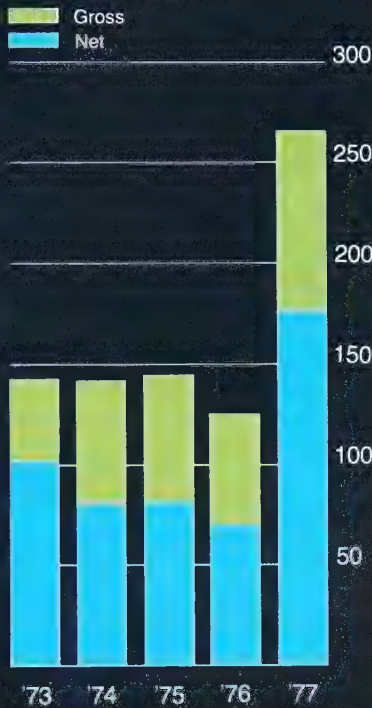
(1) 1,027,000 gross (582,000 net) barrels are medium and heavy gravity crude in western Saskatchewan.

(2) 1890 mmcf (1280 mmcf net) are in areas unlikely to be connected to market before 1981.

FINANCIAL AND OPERATING TRENDS

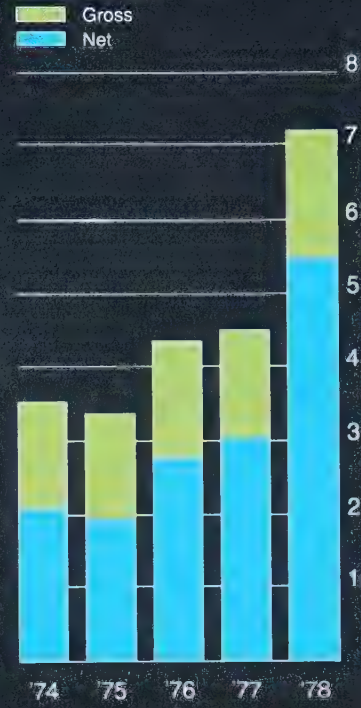
Oil Production

Thousands of Barrels



Oil Reserves

(Proven and Probable) as of January 1
Millions of Barrels



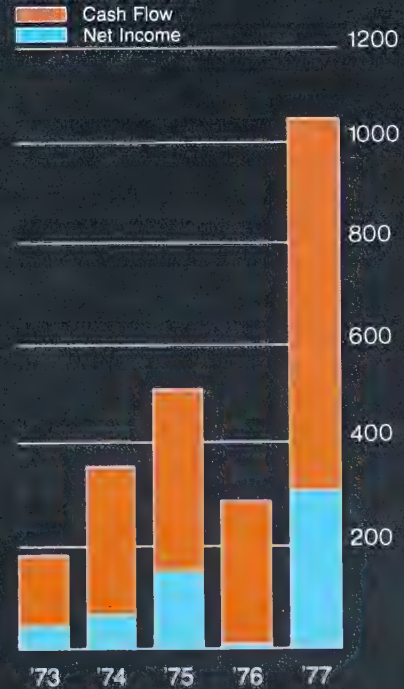
Gross and Net Production Income

Millions of Dollars



Cash Flow and Net Income

Thousands of Dollars



PAGE PETROLEUM LTD.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1977 AND 1976

	<u>1977</u>	<u>1976</u>
ASSETS		
CURRENT ASSETS		
Cash and marketable securities	\$ 286,000	\$ 94,000
Accounts receivable	1,566,000	448,000
Provincial royalty tax credit	146,000	98,000
Inventory, at cost	19,000	—
Prepaid expenses	7,000	13,000
	<u>2,024,000</u>	<u>653,000</u>
 PROPERTY, PLANT AND EQUIPMENT, AT COST (note 3)	 10,586,000	 5,207,000
Less: Accumulated depreciation, depletion and amortization	 <u>1,533,000</u>	 <u>914,000</u>
	<u>9,053,000</u>	<u>4,293,000</u>
 OTHER ASSETS		
Drilling and exploration deposits	65,000	23,000
Unamortized deferred financing charges (note 1)	 —	 27,000
	<u>65,000</u>	<u>50,000</u>
 Approved on behalf of the Board,		
 C. D. GOULD, Director		
 T. J. JACOBSEN, Director		
	<u>\$11,142,000</u>	<u>\$4,996,000</u>

*The accompanying notes are an integral
part of these consolidated financial statements.*

	<u>1977</u>	<u>1976</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank operating loan (note 5)	\$ 150,000	\$ —
Accounts payable and accrued liabilities	1,178,000	401,000
Current portion of long term debt	28,000	161,000
	<u>1,356,000</u>	<u>562,000</u>
 LONG TERM DEBT		
Production and development loans (note 5)	5,542,000	2,158,000
7% convertible subordinated debentures (note 6)	5,000	250,000
	<u>5,547,000</u>	<u>2,408,000</u>
 DEFERRED INCOME TAXES (note 1)	<u>675,000</u>	<u>344,000</u>
 SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 8)		
Authorized		
5,000,000 common shares without par value		
Issued		
1,999,252 shares (1,410,086 shares in 1976)	2,747,000	1,284,000
Less: Unpaid subscriptions (note 4)	48,000	149,000
	<u>2,699,000</u>	<u>1,135,000</u>
Contributed surplus	250,000	250,000
Retained earnings	615,000	297,000
	<u>3,564,000</u>	<u>1,682,000</u>
	<u><u>\$11,142,000</u></u>	<u><u>\$4,996,000</u></u>

PAGE PETROLEUM LTD.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
INCOME		
Oil and gas sales, net of royalties	\$1,918,000	\$709,000
Drilling arrangements and other fees	86,000	—
Investment and other income	13,000	11,000
	<u>2,017,000</u>	<u>720,000</u>
EXPENSES		
Production	469,000	132,000
General and administrative	276,000	190,000
Interest (note 10)	370,000	219,000
Depreciation	93,000	29,000
Depletion	278,000	156,000
Amortization of foreign exploration costs	64,000	30,000
Amortization of deferred financing charges	27,000	12,000
	<u>1,577,000</u>	<u>768,000</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>440,000</u>	<u>(48,000)</u>
INCOME TAXES (note 11)		
Current	(147,000)	(99,000)
Deferred	269,000	44,000
	<u>122,000</u>	<u>(55,000)</u>
NET INCOME FOR THE YEAR	<u>\$ 318,000</u>	<u>\$ 7,000</u>
NET INCOME PER SHARE (note 1)	<u>\$.175</u>	<u>\$.005</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
Retained earnings, beginning of year	\$297,000	\$290,000
Net income for the year	318,000	7,000
Retained earnings, end of year	<u>\$615,000</u>	<u>\$297,000</u>

The accompanying notes are an integral part of these consolidated financial statements.

PAGE PETROLEUM LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
SOURCES OF FUNDS		
Net income	\$ 318,000	\$ 7,000
Charges to income not involving funds:		
Depreciation, depletion and amortization	462,000	227,000
Deferred income taxes	269,000	44,000
Funds generated from operations	1,049,000	278,000
Proceeds from issuance of common shares	1,463,000	4,000
Proceeds of production and development loans	2,905,000	1,090,000
Proceeds from other debt	83,000	—
Proceeds from notes receivable	118,000	6,000
Total sources of funds	5,618,000	1,378,000
USES OF FUNDS		
Acquisition of Cowzanoil Ltd. and Magnolia		
Petroleum Ltd. (note 1)	975,000	—
Less: Working capital acquired	13,000	—
	962,000	—
Net additions to property, plant and equipment	2,929,000	944,000
Additions to other assets	29,000	7,000
Repayment and current maturities of long term debt	1,121,000	528,000
Total uses of funds	5,041,000	1,479,000
Increase (decrease) in working capital	577,000	(101,000)
Working capital, beginning of year	91,000	192,000
Working capital, end of year	\$ 668,000	\$ 91,000
WORKING CAPITAL CHANGES		
Increase (decrease) in current assets		
Cash and marketable securities	\$ 192,000	\$ (102,000)
Accounts receivable	1,118,000	51,000
Income taxes recoverable — Provincial	48,000	(64,000)
Inventories	19,000	(1,000)
Prepaid expenses	(6,000)	12,000
	1,371,000	(104,000)
Increase (decrease) in current liabilities		
Bank operating loan	150,000	—
Accounts payable and accrued liabilities	777,000	(29,000)
Current maturities of long term debt	(133,000)	26,000
	794,000	(3,000)
	\$ 577,000	\$ (101,000)

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1977 AND 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

- (i) The consolidated financial statements include the accounts of Page Petroleum Ltd. and its wholly owned subsidiaries:

Cowzanoil Ltd.
Magnolia Petroleum Ltd.
Page Petroleum Inc.
Page Petroleum (U.K.) Ltd.
Leaf Petroleums Ltd.

Effective April 1, 1977, the Company acquired all of the outstanding shares of Cowzanoil Ltd. and Magnolia Petroleum Ltd. in exchange for 367,554 shares of the Company valued at \$956,000 (note 8). Expenses related to the acquisition amounted to \$18,000. The Company's consolidated earnings include the earnings of these subsidiaries since April 1, 1977. Details of the acquisitions, which have been accounted for by the purchase method are as follows:

Working capital	\$ 13,000
Book value of other net assets	(1,000)
	<u>12,000</u>
Excess of assigned value over book value of acquired net assets	<u>962,000</u>
Total cost of investment	<u>\$974,000</u>

The excess of assigned value over book value has been allocated to petroleum and natural gas leases and rights and additional depletion has been provided accordingly.

All intercompany accounts and transactions have been eliminated on consolidation.

- (ii) The accounts of foreign subsidiaries have been translated to Canadian dollars on the following basis: Current assets and current liabilities at the rate of exchange in effect at the year end. Other assets and liabilities at the rate of exchange in effect at the date of settlement. Revenue and expense items are translated using average rates of exchange prevailing throughout the year.

(b) Full cost method of accounting

The Company follows the full cost method of accounting for its operations wherein all costs relative to the exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenditures, carrying charges of non-producing properties, cost of drilling both productive and non-productive wells and administrative expenses related to exploration activities. Proceeds on disposal of properties are ordinarily deducted from accumulated costs without recognition of profit or loss.

Exploration and development costs are accumulated at two major cost centres:

1. North America — Canada and the United States.
2. Northwestern Europe — United Kingdom and the North Sea

Costs associated with the North America cost centre are depleted using the unit of production method based on estimated recoverable North America reserves as determined by independent and Company engineers. The depletion rate per equivalent barrel of oil was \$.955 (1976 — \$1.072).

Effective January 1, 1974 costs associated with the Northwestern Europe cost centre are being amortized in line with the remaining terms of existing leases. Should exploratory efforts be successful, the balance of unamortized exploration costs will be carried forward and combined with subsequent exploration and development costs incurred and will be depleted on the unit of production method. If all of the exploratory rights are surrendered, the balance of the unamortized exploration costs will be charged to income (included in amortization). At December 31, 1977 costs remaining to be amortized amount to \$52,000.

(c) Depreciation

Depreciation of production equipment is also provided for on the unit of production method. Depreciation of sundry equipment is computed on the diminishing balance method at rates of 20% and 30%. Maintenance and repairs are charged to income as incurred and major renewals and betterments are capitalized.

(d) Income Taxes

The Company follows the tax allocation method of accounting for all timing differences between taxable income and recorded income including differences relative to exploration and development expenditures. Under this method, provision for deferred income taxes are made currently on the excess of deductions claimed for tax purposes over the related depletion, depreciation and other charges recorded in the amounts on the premise that such taxes will become payable in future years when recorded charges exceed the amounts available for tax purposes.

(e) Net income per share

Net income per share is based on the weighted average number of shares outstanding during the year which for 1977 was 1,811,660 (1976 — 1,408,753). The conversion of the 7% convertible debentures and the exercising of the employee stock options as of January 1, 1977 would not be dilutive.

(f) Unamortized deferred financing charges

Deferred financing charges of \$69,000 associated with the issuance of the 7% convertible debentures have now been completely amortized as all but \$5,000 in debentures have been converted to common shares of the Company.

2. LIMITED PARTNERSHIP

The Company, through its wholly owned U.S. subsidiary, Page Petroleum Inc., is the sole general partner of Page 1975 Ltd., a limited partnership formed under the laws of the State of Texas, U.S.A., for the purpose of exploring for oil and gas. The limited partnership agreement provides that all costs associated with the development of the oil and gas properties and the income derived from such properties be divided 65% to the limited partners and 35% to the general partner.

The Company's investment in the limited partnership is reflected on a proportionate consolidation basis.

3. PROPERTY, PLANT AND EQUIPMENT

	<u>Assets, at cost</u>	<u>Accumulated Depletion, Depreciation and Amortization</u>	<u>Net Investment</u>
December 31, 1977			
Petroleum and natural gas leases and rights, including exploration and development costs thereon			
North America			
Canada	\$ 6,824,000	\$ 881,000	\$5,943,000
United States	1,249,000	135,000	1,114,000
Northwestern Europe	207,000	155,000	52,000
	<u>8,280,000</u>	<u>1,171,000</u>	<u>7,109,000</u>
Production equipment	2,168,000	299,000	1,869,000
Sundry	138,000	63,000	75,000
Total December 31, 1977	<u>\$10,586,000</u>	<u>\$1,533,000</u>	<u>\$9,053,000</u>
December 31, 1976			
Petroleum and natural gas leases and rights, including exploration and development costs thereon			
North America			
Canada	\$ 3,200,000	\$ 516,000	\$2,684,000
United States	1,108,000	119,000	989,000
Northwestern Europe	178,000	90,000	88,000
	<u>4,486,000</u>	<u>725,000</u>	<u>3,761,000</u>
Production equipment	656,000	151,000	505,000
Sundry	65,000	38,000	27,000
Total December 31, 1976	<u>\$ 5,207,000</u>	<u>\$ 914,000</u>	<u>\$4,293,000</u>

4. UNPAID SUBSCRIPTIONS

Unpaid subscriptions are comprised of the following:

	1977	1976
4% promissory notes receivable	\$48,000	\$ 78,000
6% share purchase agreement receivable	—	60,000
Other notes receivable	—	11,000
	<u>\$48,000</u>	<u>\$149,000</u>

To enable a senior officer to exercise his stock options in 1973, the Company loaned him \$93,000 by way of 4% promissory notes. Subsequent to December 31, 1977 the balance of the notes was received together with accrued interest.

In 1973, the Company and a senior officer entered into a share purchase agreement for 45,000 shares at \$2.00 per share. During the year ended December 31, 1977, the entire balance was received together with accrued interest.

5. PRODUCTION AND DEVELOPMENT LOANS

Production and development loans are comprised of the following:

	1977	1976
Notes payable	\$ 91,000	\$ 69,000
Less: Portion due within one year	<u>28,000</u>	<u>40,000</u>
	63,000	29,000
Bank production loans	5,412,000	2,046,000
Development loans	<u>67,000</u>	<u>83,000</u>
	<u>\$5,542,000</u>	<u>\$2,158,000</u>

Notes payable represent:

- (i) An advance by an equipment leasing company in the United States for wellhead equipment.
- (ii) The balance owing on the purchase of wellhead equipment in the Province of Saskatchewan.

Both notes have fixed terms of repayment and are due in monthly installments of \$2,300 plus interest.

Development loans represent prepayments for oil and gas production in the United States with repayments to be made from the proceeds of production. The oil repayment is to be made at \$2 per barrel sold and the gas at 25% of 75% of net gas revenue received. At present levels of production the debt is being retired at \$1,300 per month.

The bank operating and production loans are secured by a general assignment of accounts receivable and certain specific oil and gas properties and bear interest at 1% over a Canadian bank's minimum lending rate. Estimated principal repayments on the bank production loans for the next five years are as follows:

1978 —	\$1,260,000
1979 —	\$1,053,000
1980 —	\$ 921,000
1981 —	\$ 854,000
1982 —	\$ 751,000

In accordance with generally accepted accounting principles, no portion of the bank production loans and the development loans have been classified as a current liability as all of these loans are secured by, and repayable from, future production proceeds and will not require the use of current assets.

6. 7% CONVERTIBLE SUBORDINATED DEBENTURES DUE AUGUST 1, 1979

The debentures are secured by way of a floating charge in favour of the trustee on all of the Company's assets and undertakings.

The indebtedness evidenced by the debentures is subordinate to the prior payment in full of the senior indebtedness of the Company which at December 31, 1977 was comprised of the bank production loan.

The debentures are convertible into common shares of the Company at the following prices:

- \$2.50 per share — August 1, 1973 - August 1, 1977
- \$3.25 per share — August 2, 1977 - August 1, 1978
- \$4.00 per share — August 2, 1978 - August 1, 1979

The original sinking fund payment requirements on the debentures were satisfied as follows:

	1976	1977	1978	1979
Payments required	\$125,000	\$125,000	\$125,000	\$125,000
Redemptions and conversions to common shares				
1973 and 1974	64,000	—	—	—
1976	61,000	4,000	—	—
	<u>\$ —</u>	<u>121,000</u>	<u>125,000</u>	<u>125,000</u>
1977 (note 8)		<u>121,000</u>	<u>125,000</u>	<u>120,000</u>
		<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,000</u>

7. COMMITMENTS AND GUARANTEES

There were no outstanding commitments with respect to the retention of oil and gas exploratory permits held by the Company.

8. CAPITAL STOCK

(a) The following changes in the capital stock of the Company occurred in 1977.

	Number of Shares	Stated Value
Balance, December 31, 1976	1,410,086	\$1,283,847
Conversion of 7% convertible subordinated debentures	146,400	366,000
Exercise of employees' stock options	50,000	76,000
Acquisition of CowzanOil Ltd.	289,076	751,598
Acquisition of Magnolia Petroleum Ltd.	78,478	204,042
Acquisition of producing properties	25,212	65,551
Balance, December 31, 1977	<u>1,999,252</u>	<u>\$2,747,038</u>

(b) Outstanding stock options and debenture conversion privileges at December 31, 1977:

1. Stock options

Common shares of the Company are offered to key employees under a stock option plan. The options are exercisable during the term of employment, $\frac{1}{3}$ annually on a cumulative basis.

Date granted	Price	Options outstanding	
		1977	1976
July 4, 1975	\$1.52	20,000	70,000
July 19, 1977	2.59	15,000	
September 23, 1977	2.59	55,000	
December 1, 1977	3.79	5,000	
		<u>95,000</u>	<u>70,000</u>

2. Conversion of 7% convertible subordinated debentures

1,538 shares at \$3.25 per share expiring on August 1, 1978 (note 6) (1976 — 148,400 at \$2.50 per share).

9. EXECUTIVE REMUNERATION

The total remuneration paid to directors and senior officers of the Company amounted to \$197,000 (1976 — \$111,000). Remuneration consists of salary and Company contributions to a deferred profit sharing plan.

10. INTEREST EXPENSE

Interest expense is comprised of the following:

	1977	1976
Bank operating loan	\$ 5,000	\$ —
Long term debt		
7% convertible subordinated debentures	9,000	27,000
Bank production loans and		
development loans	356,000	192,000
	<u>365,000</u>	<u>219,000</u>
	<u>\$370,000</u>	<u>\$ 219,000</u>

11. DEFERRED INCOME TAXES

Deferred income tax expense results from timing differences in the recognition of certain expenditures for tax and financial statement purposes. The sources of these differences in 1977 and 1976 and the tax effect on each were as follows:

	1977	1976
Excess of tax capital cost allowance over		
book write-off for depreciable assets	\$ 31,000	\$ 36,000
Excess of tax write-off over book write-off		
for exploration expenses, intangible drilling		
expenditures and lease acquisition costs	238,000	8,000
	<u>269,000</u>	<u>44,000</u>
Provincial royalty tax credit on royalties		
not deductible for federal tax purposes	(147,000)	(99,000)
	<u>\$122,000</u>	<u>\$ (55,000)</u>

Based on currently anticipated expenditures and operations, it is not expected that the deferred income tax balance will be substantially reduced in the succeeding two years.

Total income tax expense in 1977 was \$122,000 due to a credit of \$147,000 pertaining to an amount receivable from the Government of Alberta on crown royalties paid during the year. Net income tax expense of \$122,000 is \$135,000 lower than the computed expected tax by applying the Canadian and United States federal tax rates of 47% and 48% respectively to income before tax after allowing for permanent timing differences which will never be deductible from income for tax purposes.

Income before income taxes	\$440,000
Add: Depreciation and depletion of purchase	
discrepancies (note 1)	39,000
Amortization of foreign exploration costs	64,000
	<u>\$543,000</u>
Allocation	
Canada	\$438,000
United States	105,000
	<u>\$543,000</u>

The reason for the difference between income tax expense and "expected" income tax expense is as follows:

	Canada		United States	
	Dollars	Percent of Income	Dollars	Percent of Income
Computed "expected" tax expense	\$206,000	47	\$51,000	48
Increase (decrease) in taxes resulting from				
Non-deductible crown royalties	396,000	91		
Earned depletion allowance	(95,000)	(22)	(14,000)	(13)
Resource allowance	(222,000)	(51)		
Tax reductions	(39,000)	(8)	(14,000)	(13)
Provincial royalty tax credit	(147,000)	(34)		
	<u>\$ 99,000</u>	<u>23</u>	<u>\$23,000</u>	<u>22</u>

AUDITORS' REPORT

To the Shareholders
Page Petroleum Ltd.

We have examined the consolidated balance sheets of Page Petroleum Ltd. as at December 31, 1977 and 1976 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and 1976 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding years.

Calgary, Alberta
February 28, 1978

COLLINS BARROW
CHARTERED ACCOUNTANTS

FIVE YEAR STATISTICAL SUMMARY

FINANCIAL

	1977	1976	1975	1974	1973
INCOME					
Oil and gas sales	\$2,914,000	1,240,000	1,304,000	882,000	510,000
Royalties paid	996,000	531,000	547,000	356,000	143,000
Net oil and gas sales	1,918,000	709,000	757,000	526,000	367,000
Interest and other income	86,000	11,000	67,000	148,000	88,000
GROSS INCOME	2,017,000	720,000	824,000	674,000	455,000
Production expenses	469,000	132,000	84,000	50,000	47,000
General and administrative (net)	276,000	190,000	190,000	197,000	197,000
Interest expense	370,000	219,000	146,000	136,000	33,000
FUNDS GENERATED from operations	1,049,000	278,000	505,000	352,000	178,000
Per common share	.58	0.20	0.36	0.25	0.13
Depreciation, depletion, amortizations	462,000	227,000	241,000	172,000	102,000
Deferred income taxes	269,000	44,000	107,000	105,000	25,000
Provincial royalty tax credit	(147,000)	(99,000)	(101,000)	(61,000)	—
NET INCOME	318,000	7,000	157,000	75,000	51,000
Per share	.175	.005	0.11	0.05	0.04

BALANCE SHEET

Working capital (deficiency)	668,000	91,000	192,000	170,000	(19,000)
Property and equipment	9,053,000	4,293,000	3,565,000	2,974,000	2,335,000
Other assets	65,000	50,000	55,000	74,000	107,000
CAPITAL EMPLOYED	9,786,000	4,434,000	3,812,000	3,218,000	2,423,000
Deduct Long-term debt	5,547,000	2,408,000	1,846,000	1,516,000	977,000
Deferred income taxes	675,000	344,000	301,000	194,000	90,000
Shareholders' equity	3,564,000	1,682,000	1,665,000	1,508,000	1,356,000
Common shares outstanding	1,999,252	1,410,086	1,408,486	1,408,486	1,380,718

OPERATIONS

LAND HOLDINGS (working interest)

Gross Acreage Held	1,627,000	1,639,000	2,482,000	4,150,000	3,896,000
North America — Net	111,000	92,000	138,000	315,000	315,000
Overseas — Net	43,000	47,000	178,000	307,000	307,000
TOTAL NET ACREAGE	154,000	139,000	316,000	622,000	622,000

DRILLING ACTIVITY

Gross wells drilled	53.0	11.0	60.0	19.0	46.0
Net wells drilled	42.6	2.4	6.6	3.8	6.1
Productive	42.3	1.5	3.3	0.8	2.5
Dry	0.3	0.9	3.3	3.0	3.6

PRODUCTION — gross (before royalties)

Crude oil — barrels	266,000	125,000	144,000	141,000	143,000
Average daily, barrels	730	341	395	387	391
Natural gas — mcf	195,000	164,000	191,000	103,000	82,000
Average daily, mcf	534	448	522	282	225

GROSS RESERVES — proven and probable

Crude oil — thousand barrels	7,235	4,527	4,352	3,382	3,522
Natural gas — mmcf	9,589	5,767	4,961	4,510	3,273

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

	1977	1976	1975
Gross Income	\$2,017,000	\$ 720,000	\$ 824,000
Cost & Expenses	1,577,000	768,000	662,000
Current Income Tax	(147,000)	(99,000)	(101,000)
Deferred Income Tax	269,000	44,000	106,000
Net Income	<u>318,000</u>	<u>7,000</u>	<u>157,000</u>
Net Income			
— per share	\$.175	\$.005	\$.11

1977 compared with 1976

Gross income increased \$1,297,000 or 180% from \$720,000 in 1976, to \$2,017,000 in 1977. Net oil and gas sales increased by \$1,209,000 while other income increased by \$88,000. The acquisition of Cowzanoil Ltd., and Magnolia Petroleum Ltd., effective April 1, 1977, added \$935,000 to gross income in the current year. Higher product prices added another \$147,000. The increase in "other income" in 1977 was attributable to the earning of management fees in the United States.

Cost and expenses rose by \$809,000 or 105% from \$768,000 in 1976 to \$1,577,000 in 1977. Production expenses increased by \$337,000, almost entirely due to the acquired companies. General and administrative expenses increased by \$86,000, because of the higher level of activity during 1977. Interest expense increased by \$151,000 because of increased debt, owing to the financing of 40 wells drilled in Saskatchewan and the assumption of debt of the acquired companies, along with higher interest rates during 1977.

Provisions for depreciation, depletion and amortizations increased by \$235,000, or 103%, owing to the greater volume of production. The "unit of production" rate used for depreciation and depletion provisions compare favorably in 1977 (\$1.20 per barrel) with 1976 (\$1.22 per barrel).

The Company was not required to pay income taxes during the periods under review. The amount of credit indicated under "current taxes" represents a receivable from the Alberta Government for a portion of the crown royalties paid to them during the year. The amount receivable in 1977 was \$147,000 as compared with \$99,000 in 1976. The provision for deferred income taxes increased by \$225,000 from \$44,000 in 1976, to \$269,000 in 1977 in line with higher accounting taxable income, leaving net income for the two years under review of \$318,000 in 1977 and \$7,000 in 1976.

1976 compared with 1975

Gross Income in 1976, amounting to \$720,000, decreased by \$104,000 (13%) from the \$824,000 earned in 1975. Net oil and gas sales decreased by \$48,000 because of lower volume (\$161,000) resulting from governmental restrictions on export sales from Canada to the U.S. and a sharp decline in U.S. production from the Spraberry fields. Increased prices for Canadian products, amounting to

\$113,000, almost offset the volume deficiency. Other income in 1976 was down some \$56,000 due to the absence of management fees earned in 1975. Cost and expenses increased by \$106,000 from \$662,000 in 1975 to \$768,000 in 1976. Contributing factors were the addition of new fields causing production expenses to rise by \$48,000 and higher production loans, increasing interest expense by \$72,000.

The amounts receivable from the Government of Alberta by way of a royalty tax credit (current income taxes) were \$99,000 in 1976 as compared with \$101,000 in 1975. In line with the decrease in accounting taxable income, the provision for deferred taxes dropped from \$106,000 in 1975 to \$44,000 in 1976.

Net income, after taxes, decreased from \$157,000 in 1975 to only \$7,000 in 1976.

Drilling Operations

Page participated in the drilling of 53 wells during the year, 41 of which were operated by the company. The increase in operations was due in large part to the acquisition of Cowzanoil and Magnolia. The cost of finding and developing new reserves amounted to \$2,929,000 in 1977 as compared with \$944,000 in 1976 and \$822,000 in 1975.

Land Holdings

The Company added 4,160 gross acres in Alberta in 1977, almost all in the Boundary Lake area, and dropped 9,840 acres as being no longer prospective. A total of 3,000 acres was farmed out to others for evaluation. In Saskatchewan, 12,160 acres were added through the acquisition of Cowzanoil and Magnolia, and a further 7,920 acres of mineral titles and 800 acres of leases were purchased. During the year, 1,280 acres were dropped as being no longer prospective. In the United States, 9,990 acres of leases were added on new prospects, all in Hemphill County, Texas, while 160 acres in Kansas were dropped. No changes in land holdings occurred in the Arctic. In the U.K., 33,280 acres were dropped as being no longer prospective. In Italy, a small over-riding royalty was retained at no cost to the company.

Production

The acquisition of Cowzanoil and Magnolia added 75,000 barrels of oil production in 1977. New wells at Dodsland and Buffalo Coulee added 56,000 barrels while production at Boundary Lake increased from 8,300 barrels in 1976 to 21,100 in 1977. Gas production was still minor for 1977 but a new discovery in Texas should add significant production in 1978 and in future years.

Reserves

The acquisition of Cowzanoil and Magnolia added 1,025,000 barrels to the company's net proved oil reserves. New drilling in Saskatchewan has added 2,210,000 net barrels and new drilling in Alberta 100,000 barrels. Reductions in reserves during the year were 172,000 net barrels of oil produced and 600,000 net barrels deleted because of a reduction of area considered to be suitable for water-flood at Boundary Lake. New gas reserves in the U.S. amounted to 2 billion net cubic feet.



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